

2. Management Policies

(1) Fundamental Management Policy

TDK was founded as a venture enterprise in 1935 for the purpose of industrializing a magnetic material called ferrite, which was invented at the Tokyo Institute of Technology. TDK's corporate motto is "Contribute to culture and industry through creativity," a message that embodies the company's founding spirit. Guided by this spirit, in the ensuing years TDK has sought to refine its materials and process technologies, as it develops new products that satisfy market needs. Concurrently, TDK has advanced globalization and diversification of its business operations while actively pursuing M&As, collaboration with external partners and other initiatives. As a result, TDK today is engaged in four main businesses: Passive Components, Sensor Application Products, Magnetic Application Products, and Energy Application Products.

Looking ahead, TDK would like to remain a dynamic company that continues to deliver even higher value to all stakeholders, including shareholders, customers, suppliers, employees and local communities, by bringing together the entire Group's strengths while taking full advantage of the strengths of each Group company, and constantly drawing on innovative thinking and a willingness to tackle new challenges.

(2) Targeted Management Indicators

To realize this fundamental management policy, TDK conducts its business activities with reference to the following indicators.

(Important Fundamental Management Indicator)

*** TVA (TDK Value Added)**

TVA measures the added value newly created by the company's business activities and is an important decision-making tool for management.

TVA is the TDK Group's proprietary value-added indicator that compares earnings after taxes but without deducting interest expenses with the minimum profit (cost of shareholders' equity) required for the business assets of each business.

(Indicator for Managing Environmental Performance)

*** CO₂ Emissions Reductions**

As part of its environmental action plan to promote business activities in harmony with the natural environment, TDK has set a target for CO₂ emissions reductions.

(3) Medium- and Long-Term Management Strategy

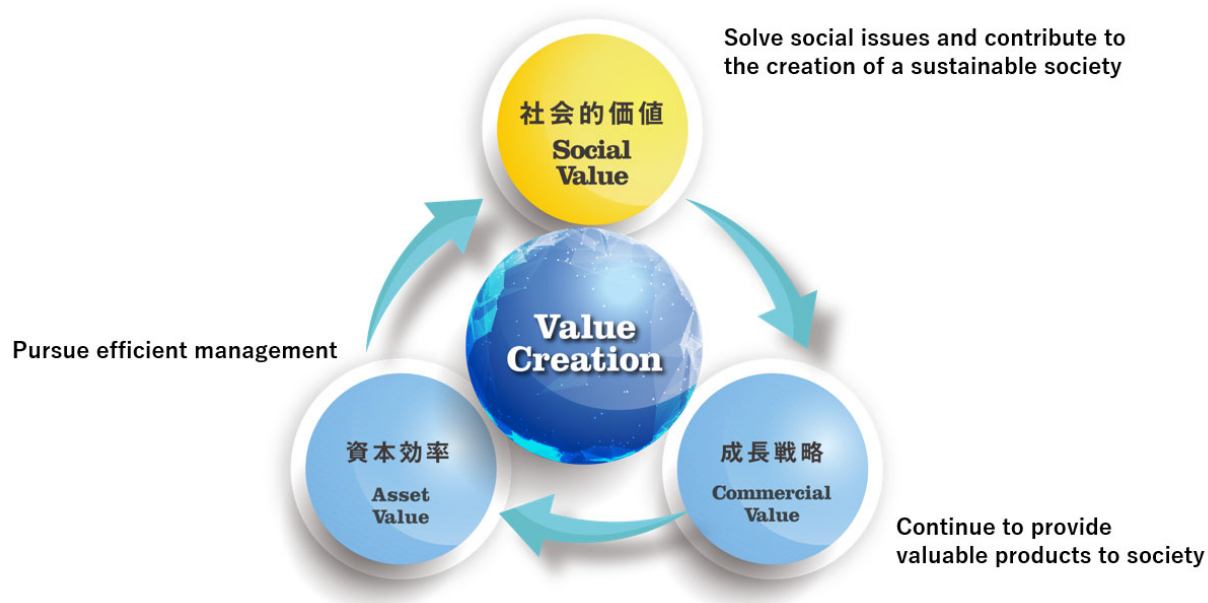
The business environment revolving around electronics is now standing on the threshold of a period of major upheaval. Transformation has begun in earnest, with an energy transformation (EX) driven by the shift from fossil fuels to renewable energy and a digital transformation (DX) driven by the

permeation of digital technologies, such as the Internet of Things (IoT) and Artificial Intelligence (AI), to every aspect of society.

The TDK Group regards such changes in the social environment as opportunities for new social contributions and business growth, and has formulated a three-year medium-term plan with the fiscal year ending March 2022 as the first year. In DX, the Group will contribute to the transformation of society through digital technologies by supplying products for high-speed communication networks, sensors, autonomous driving, and robots. In EX, the Group will contribute to the promotion of a decarbonized society by supplying products related to energy storage, conversion, and control necessary for the creation of a highly efficient energy society, as well as products related to electric vehicles and renewable energy.

Under the medium-term plan, the Group will aim to create corporate value by implementing a cycle based on the following three pillars: “Social Value” that serves as a basis for contributing to solving social issues and creating a sustainable society, “Commercial Value” that involves continuing to provide valuable products to society, and “Asset Value” that pursues efficient management. The Group has positioned “social value” as a basis of its management plan and has identified the “TDK Group’s Materiality (key issues)” as priority management issues for the Group based on the Sustainable Development Goals (SDGs) adopted by the United Nations Summit 2015. The “TDK Group’s Materiality” has specified EX and DX as business areas to focus on and identified “quality management,” “human resource management,” “supply chain management,” “opportunity and risk management,” “pursuing both delegation of authority and internal controls,” and “asset efficiency improvement” as materiality that should be addressed as the basis of corporate growth.

With the materiality and medium-term plan which are an integrated initiative based on social value, the Group will contribute to a sustainable society and increase its corporate value by implementing a value creation cycle comprised of Social Value, Commercial Value, and Asset Value.



(4) Pressing Issues

The global spread of the COVID-19 pandemic has drastically reshaped the social and industrial landscape. These changes will not likely stop even when the spread of the virus is contained, but are expected to remain as the “new normal.” The business environment surrounding the TDK Group could also be altered drastically.

However, even amid these changes in the social and industrial landscape, the trends of EX and DX should continue to grow in the electronics market. These trends are expected to bring about the creation of new markets in the Group’s business fields. Significant growth opportunities will be presented to the Group by trends that include the widespread adoption of renewable energy and electric vehicles in EX, and the growing use of 5G, the practical use of Advanced Driving Assistance Systems (ADAS) in automobiles, the growing use of IoT and wearable products, and cloud services in DX. It is imperative for TDK to steadily capture these growth opportunities without falling behind these major changes. To this end, TDK will actively conduct research and technological development focused on launching competitive new products in a timely manner and expanding production capacity in line with demand.

TDK also recognizes that addressing the following issues that are identified as materiality is a pressing issue for achieving growth: “quality management,” “human resource management,” “supply chain management,” “opportunity and risk management,” “pursuing both delegation of authority and internal controls,” and “asset efficiency improvement.”

For example, as part of our improvements in asset efficiency, the Group has been reviewing and restructuring its business portfolio. In addition, human resources are the basis of growth. With non-Japanese employees accounting for more than 90% of the Group’s workforce, TDK believes that diverse and abundant human resources are a key source of its competitiveness. TDK has continuously engaged in a wide range of human resource management initiatives to attract and retain talented human resources.

3. Basic Rationale for Selection of Accounting Standards

TDK started to prepare its consolidated financial statements using U.S. GAAP when it issued an American Depositary Receipt (“ADR”) in July 1974. In April 2009, TDK delisted its shares on the New York Stock Exchange but maintained its ADR program in the U.S., and continues to use U.S. GAAP when it prepares consolidated financial statements. This was done from the viewpoint of protecting shareholders or investors and enabling them to make comparisons with past disclosures of information.

As for the application of International Financial Reporting Standards (“IFRS”), TDK’s policy is to respond appropriately after taking into consideration the circumstances unfolding both in Japan and overseas.